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Students' Department

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Students' Department

H. P. BAUMANN, *Editor*

NEW YORK C. P. A. EXAMINATION

The editor of this department has received many requests to prepare a solution to the following problem which was set by the University of the State of New York at the 70th accountant examination on November 10, 1930, as problem number one in part one—practical accounting.

The correspondents emphasized particularly their difficulty in accounting for the reciprocal balances shown on the books of the main office (\$903,019), and the factory office (\$1,287,519).

One writer pointed out the fact that—

Factory building	\$225,000
Factory site	150,000
Patent rights	30,000
<hr/>	
Total	\$405,000
Reserve for depreciation of building	20,500
<hr/>	
Balance	<u>\$384,500</u>

is the amount of the difference. He, however, was unable to use this information which he so carefully ferreted out.

Another guessed that the difference arose because liabilities were not taken up on the books of the home office. And yet another guessed that purchases were overstated by the factory, and that the \$384,500 should be credited to earnings.

This difference of \$384,500 can not be accounted for from the information given, and is accordingly set out in the balance-sheet between the current liabilities and the net worth sections. Many different assumptions may be made, but can any of them be sustained?

Problem:

From the following trial balance of the Wright Company, manufacturers of a patented rubber flooring, as of November 30, 1929, plus the given supplementary information, prepare the following:

- (a) Balance-sheet.
- (b) Profit-and-loss statement.
- (c) Statement of cost of manufacture.

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Main Office		
Accounts payable.....		\$ 59,200.00
Accounts receivable.....	\$ 180,105.00	
Accrued payroll.....		4,278.00
Advertising.....	26,450.00	
Balance account.....	903,019.00	
Bond investments.....	101,902.34	
Capital stock, common.....		100,000.00
Capital stock, preferred.....		300,000.00
Delivery equipment.....	9,250.00	
Delivery expenses.....	7,140.00	
Directors' fees.....	2,500.00	
Discount on sales.....	12,200.00	
Dividend, preferred stock.....	18,000.00	
Factory building.....	225,000.00	
Factory site.....	150,000.00	
Finished goods.....	34,320.00	
First National Bank.....	161,225.00	
General expenses.....	24,770.00	
Investment income.....		5,500.00
Notes receivable.....	35,000.00	
Office furniture and fixtures.....	1,200.00	
Patent rights.....	30,000.00	
Rent of warehouse.....	3,875.00	
Reserve for depreciation of buildings.....		20,500.00
Reserve for uncollectible accounts.....		8,000.00
Salaries, office and general.....	14,500.00	
Salaries, salesmen.....	34,600.00	
Sales.....		1,458,742.00
Surplus.....		38,986.34
Traveling expenses, general.....	3,900.00	
Traveling expenses, salesmen.....	8,400.00	
Uncollectible accounts.....	7,850.00	
	<u>\$1,995,206.34</u>	<u>\$1,995,206.34</u>

Factory Office		
Balance account.....		\$1,287,519.00
Freight on raw materials.....	\$ 14,395.00	
Goods in process.....	23,450.00	
Heat, light and power.....	22,200.00	
Insurance and taxes.....	17,400.00	
Labor, productive.....	233,846.00	
Labor, non-productive.....	99,444.00	
Loose tools.....	6,270.00	
Machinery and equipment.....	165,090.00	
Purchases, raw material.....	682,650.00	
Repairs.....	14,050.00	
Reserve for depreciation of machinery.....		16,836.00
Shop supplies and expenses.....	25,560.00	
	<u>\$1,304,355.00</u>	<u>\$1,304,355.00</u>

Supplementary Information

Inventories, November 30, 1928:	
Raw material.....	\$ 36,950
Inventories, November 30, 1929:	
Raw material.....	46,500
Finished goods.....	50,400
Goods in process.....	17,205
Loose tools.....	3,305

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Reserve for uncollectible accounts to be 5% of open trade accounts.

Depreciation for 1929:

Factory building	2%
Machinery	5%
Delivery equipment	10%
Furniture and fixtures	\$ 200

Patent rights expire October 31, 1935. They were purchased as of December 1, 1928, at the price booked.

Advertising in the amount of 1,010
applies to next year.

Common capital stock authorized 250,000

Accrued taxes on factory and buildings 1,500

The bond investments were purchased as of October 31, 1927, the purchase price being \$206,788.86, ex interest. On April 30, 1929, one half of the bonds were sold for \$104,886.52. The bonds are semi-annual and the price paid is such as to net the investor 5% per annum; the nominal rate is 5½% per annum.

An analysis of the accounts receivable produces:

Trade accounts	164,905
Consignment accounts	15,200

The subsidiary consignment ledger balances are:

	Debit	Credit
H. Byrne & Co., inventory account	\$28,230	
H. Byrne & Co., finance account		\$11,460
L. Day & Co., inventory account	790	
L. Day & Co., finance account	4,680	
M. Mason & Co., inventory account		7,040

The inventories of goods out on consignment, at cost, in the hands of the above consignees, from submitted and certified reports, are:

H. Byrne & Co.	21,540
L. Day & Co.	550
M. Mason & Co.	7,040

Solution:

Explanatory Adjusting Entries

(1)

Raw-material inventory	\$ 46,500.00	
Purchases, raw material		\$ 46,500.00
To set up raw-material inventory as of November 30, 1929.		

(2)

Finished-goods inventory	50,400.00	
Finished goods		50,400.00
To set up finished-goods inventory as of November 30, 1929.		

(3)

Goods-in-process inventory	17,205.00	
Goods in process		17,205.00
To set up goods-in-process inventory as of November 30, 1929.		

(4)

Loose-tools inventory	3,305.00	
Loose tools		3,305.00
To set up loose-tools inventory as of November 30, 1929.		

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(5)		
Depreciation—factory building.....	\$4,500.00	
Reserve for depreciation of building.....		\$4,500.00
To provide depreciation for 1929 at 2% on cost of building (\$225,000.00).		
(6)		
Depreciation—machinery.....	8,254.50	
Reserve for depreciation—machinery.....		8,254.50
To provide depreciation for 1929 at 5% on cost of machinery (\$165,090.00).		
(7)		
Depreciation—delivery equipment.....	925.00	
Reserve for depreciation—delivery equipment..		925.00
To provide depreciation for 1929 at 10% of cost of same (\$9,250.00).		
(8)		
Depreciation—furniture and fixtures.....	200.00	
Reserve for depreciation—furniture and fixtures		200.00
To provide depreciation for 1929.		
(9)		
Amortization of patent rights.....	4,337.35	
Reserve for amortization of patent rights.....		4,337.35
To provide for amortization of patents bought December 1, 1928, which expire October 31, 1935.		
Cost of patent rights.....	<u>\$30,000.00</u>	
Life of patent rights.....	<u>6-11/12 years</u>	
Chargeable to 1929:		
12/83 x \$30,000.00 or.....	<u>\$ 4,337.35</u>	
(10)		
Deferred advertising.....	1,010.00	
Advertising.....		1,010.00
To set aside deferred advertising.		
(11)		
Capital stock, common.....	100,000.00	
Capital stock, common, unissued.....	150,000.00	
Capital stock, common, authorized.....		250,000.00
To record the authorized common capital stock.		
(12)		
Taxes.....	1,500.00	
Accrued taxes.....		1,500.00
To record the accrued taxes on factory and buildings.		

At this point the candidate should prepare an analysis of the bond account. While the par of the bonds still on hand is not given, the problem states that the bonds have a nominal rate of $5\frac{1}{4}\%$ and an effective rate of 5%. Obviously, the premium on the bonds is carried in the bond-investment account. Furthermore, as the coupon rate is $5\frac{1}{2}\%$ and the investment income is shown as

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\$5,500, it may be assumed that the par of the bonds still on hand is \$100,000. As one-half of the original purchase of bonds was sold on April 30, 1929, the par of the bonds purchased was undoubtedly \$200,000. With this as a starting point, the schedule as shown on page 464 may be prepared.

From the analysis, it will be seen that the balance in the bond-investment account, after considering (1) the sale of one-half of the bonds on April 30, 1929, (2) the amortization of bond discount, and (3) the loss on the bonds sold should be \$102,678.30. The adjusting entries to correct this balance follow:

(13)		
Surplus	\$	726.66
Investment income		497.38
Bond investment		\$1,224.04
To credit the bond-investment account with the premium amortized.		
Prior years	\$	726.66
Current Year		497.38
		Total
		\$1,224.04

(14)		
Loss on sale of bonds		750.00
Bond investment		2,000.00
Investment income		2,750.00
To record the interest accrued on the bonds sold April 30, 1929, and the loss on sale thereof.		
Selling price	\$104,886.52	
Less—interest coupons thereon		2,750.00
		Adjusted selling price
		\$102,136.52
Cost—(per analysis)		102,886.52
		Loss
		\$ 750.00

The bond investment account as adjusted will now show:

Balance, per books		\$101,902.34
Add: Interest on bonds sold (entry No. 14)		2,750.00
Total		\$104,652.34
Deduct:		
Bond premium amortized (entry No. 13)	\$	1,224.04
Loss on bonds sold (entry No. 14)		750.00
		1,974.04
Balance, per schedule		\$102,678.30

The investment income is shown in the trial balance as \$5,500, which 5½% (the coupon rate) on \$100,000 par of bonds. It will be necessary therefore to adjust this account to give effect to (1) the accrued interest at December 1, 1928, (2) the accrued interest at November 30, 1929, (3) the bond premium

SCHEDULE OF BOND INVESTMENT ACCOUNT AND INTEREST

	Bond investment		Interest earned (5% of balance)	Coupon collectible	Premium amortized
	Cost	Premium amortized and sale			
October 31, 1927.....	\$206,788.86				
April 30, 1928.....		\$ 330.28	\$ 5,169.72	\$ 5,500.00	\$ 330.28
October 31, 1928.....		338.54	5,161.46	5,500.00	338.54
November 30, 1928.....		57.84	858.83	(15) 916.67	57.84
Totals.....	\$206,788.86	\$ 726.66	\$11,190.01	\$11,916.67 (13)	\$ 726.66
April 30, 1929.....		\$ 289.16	\$ 4,294.17	\$ 4,583.33	\$ 289.16
Sale of one-half (14).....		102,886.52			
October 31, 1929.....		177.84	2,572.16	2,750.00	177.84
November 30, 1929.....		30.38	427.95	(16) 458.33	30.38
Totals.....		\$103,383.90	\$ 7,294.28	\$ 7,791.66 (13)	\$ 497.38
	\$206,788.86	\$104,110.56	\$18,484.29	\$19,708.33 (13)	\$1,224.04

NOTE.—Numbers in parentheses refer to adjusting journal entry numbers.

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amortized, and (4) the interest earned on the bonds sold during the year. The last two adjustments were made in entries numbered 13 and 14.

(15)

Investment income	\$	916.67	
Surplus			\$ 916.67
To record the accrued interest on bonds at December 1, 1928, collected during the current year.			

(16)

Accrued interest receivable	458.33	
Investment income		458.33
To record the accrued interest on bonds at November 30, 1929.		

 The investment-income account as adjusted will now show:

Balance, per books		\$	5,500.00
Add: Coupons collected on bonds sold (entry No. 14)	\$	2,750.00	
Accrued interest—November 30, 1929 (entry No. 16)		458.33	3,208.33
Total			<u>\$ 8,708.33</u>
Deduct:			
Bond premium amortized (entry No. 13)	\$	497.38	
Accrued interest—December 1, 1928 (entry No. 15)		916.67	1,414.05
Balance, per schedule			<u><u>\$ 7,294.28</u></u>

(17)

Inventory on consignment	\$	29,130.00	
H. Byrne & Co.	\$21,540.00		
L. Day & Co.	550.00		
M. Mason & Co.	7,040.00		
Total	<u>\$29,130.00</u>		
Accounts receivable—M. Mason & Co.	\$	7,040.00	
Accounts receivable			\$29,020.00
H. Byrne & Co.	\$28,230.00		
L. Day & Co.	790.00		
Total	<u><u>\$29,020.00</u></u>		
Adjustment of consignment accounts			7,150.00
To adjust the consignment accounts.			

It is not known from the information given in the problem just why the inventory accounts in the subsidiary consignment ledger do not agree with the "inventories of goods out on consignment, at cost," as certified. Whether the charges to these inventory accounts were at cost is not known, nor can the

Exhibit A

THE WRIGHT COMPANY Balance sheet—November 30, 1929			
Assets		Liabilities and net worth	
Current assets:		Current liabilities:	
Cash—First National Bank.....	\$161,225.00	Accrued taxes.....	\$ 1,500.00
Receivables:		Accrued payroll.....	4,278.00
Trade accounts.....	\$164,905.00	Accounts payable.....	59,200.00
Less—reserve for uncollectible accounts.....	8,245.25	Advances from consignees.....	11,460.00
	<u>\$156,659.75</u>		<u>\$ 76,438.00</u>
Notes receivable.....	35,000.00		
Advances to consignees.....	4,680.00		
	<u>196,339.75</u>		
Inventories:		Suspense account—(arising from unexplained and unascertainable difference between the main-office and factory-office ledgers).....	384,500.00
Raw materials.....	\$ 46,500.00		
Goods in process.....	17,205.00	Net worth:	
Finished goods on hand.....	50,400.00	Capital stock:	
Finished goods—consigned.....	29,130.00	Preferred—issued and outstanding.....	\$300,000.00
	<u>143,235.00</u>	Common—authorized.....	\$250,000.00
Accrued interest receivable.....	458.33	Issued and outstanding.....	100,000.00
	<u>\$ 501,258.08</u>		<u>400,000.00</u>
Bond investments—(valued at cost, less amortized premium).....	102,678.30	Surplus (exhibit B):	
Deferred advertising.....	1,010.00		<u>272,300.53</u>
	<u>1,010.00</u>		<u>672,300.53</u>
Fixed assets:			
Cost	Reserves for		
	per books		
	depreciation		
Factory site.....	\$150,000.00		
Factory building.....	225,000.00		
Machinery and equipment.....	165,090.00		
Loose tools.....	3,305.00		
Patent rights.....	30,000.00		
Delivery equipment.....	9,250.00		
Office furniture and fixtures.....	1,200.00		
	<u>\$583,845.00</u>		
Total.....	\$ 55,552.85		<u>\$28,292.15</u>
			<u>\$1,133,238.53</u>

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off-setting credit for such charges be ascertained. Accordingly, the "certified" inventories at cost are taken up, and the balances in the subsidiary accounts, including the credit balance of M. Mason & Co., are closed out to an "adjustment of consignment accounts." The finance accounts are presumed to be correct and are recorded as advances to and from consignees.

(18)		
Advances to consignees.....	\$4,680.00	
Accounts receivable.....		\$4,680.00
To record the advance to L. Day & Co.		
(19)		
Accounts receivable.....	11,460.00	
Advances from consignees.....		11,460.00
To record the advance from H. Byrne & Co.		
(20)		
Bad debts.....	245.25	
Reserve for uncollectible accounts.....		245.25
To provide for uncollectible open-trade accounts.		
5% of \$164,905.00.....	\$8,245.25	
Balance per books.....	8,000.00	
Increase in reserve.....	\$ 245.25	
(21)		
Balance account—factory office.....	1,287,519.00	
Balance account—main office.....		1,287,519.00
To transfer the former account.		

Exhibit B

THE WRIGHT COMPANY

Statement of surplus account

for the period from December 1, 1928, to November 30, 1929

Balance, December 1, 1928.....		\$ 38,986.34
<i>Add:</i>		
Accrued interest on bonds, December 1, 1928 ..	\$ 916.67	
Less—bond premium for prior years.....	726.66	190.01
Adjusted surplus, December 1, 1928.....		\$ 39,176.35
<i>Add:</i>		
Net profit for the year ended November 30, 1929		
(before provision for federal income taxes) ...	\$244,724.18	
Adjustment of consignment accounts.....	7,150.00	251,874.18
Total.....		\$291,050.53
<i>Deduct:</i>		
Dividends, preferred stock.....	\$ 18,000.00	
Loss on sale of bonds.....	750.00	18,750.00
Balance, November 30, 1929.....		\$272,300.53

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Exhibit C

THE WRIGHT COMPANY

Statement of profit and loss
for the period from December 1, 1928, to November 30, 1929

Sales		\$1,458,742.00
Cost of goods sold:		
Finished goods inventory, December 1, 1928	\$ 34,320.00	
Cost of goods manufactured (exhibit D)...	1,090,846.85	
Total	\$1,125,166.85	
Finished goods inventory, November 30, 1929	50,400.00	1,074,766.85
Gross profit on sales		\$ 383,975.15
Selling, general and administrative expenses:		
Advertising	\$ 25,440.00	
Delivery expense	7,140.00	
Directors' fees	2,500.00	
Depreciation:		
Delivery equipment	\$925.00	
Office furniture and fixtures ..	200.00	
	1,125.00	
General expenses	24,770.00	
Rent of warehouse	3,875.00	
Salaries, office and general	14,500.00	
Salaries, salesmen	34,600.00	
Traveling expenses, general	3,900.00	
Traveling expenses, salesmen	8,400.00	
Bad debts	8,095.25	\$ 134,345.25
Profit from operations		\$ 249,629.90
Interest on bonds		7,294.28
Total profit and income		\$ 256,924.18
Discount on sales		12,200.00
Net profit for the period (before provision for federal income taxes)		\$ 244,724.18

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Exhibit D

THE WRIGHT COMPANY

Statement of cost of goods manufactured
for the period from December 1, 1928, to November 30, 1929

Goods in process—December 1, 1928		\$ 23,450.00
Raw materials:		
Inventory, December 1, 1928 (included in purchases):		
Purchases	\$682,650.00	
Freight on raw materials	14,395.00	
Total	\$697,045.00	
Inventory, November 30, 1929	46,500.00	650,545.00
Productive labor		233,846.00
Manufacturing expenses:		
Heat, light and power	\$ 22,200.00	
Insurance and taxes	18,900.00	
Non-productive labor	99,444.00	
Loose tools	2,965.00	
Repairs	14,050.00	
Shop supplies and expense	25,560.00	
Depreciation:		
Factory building	\$4,500.00	
Machinery and equipment	8,254.50	
	12,754.50	
Amortization of patent rights	4,337.35	200,210.85
Total manufacturing cost		\$1,108,051.85
Deduct—goods in process, November 30, 1929 .		17,205.00
Cost of goods manufactured		<u>\$1,090,846.85</u>

THE WRIGHT COMPANY										
Working trial balance—November 30, 1929										
	Trial balance		Adjustments		Cost of goods manufactured		Profit and loss		Balance-sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Main office										
Accounts payable		\$59,200.00	(17) \$	\$ 29,020.00					\$ 164,905.00	\$ 59,200.00
Accounts receivable	\$ 180,105.00	(19)	11,460.00 (18)	4,680.00						
Accrued payroll		4,278.00								4,278.00
Advertising	26,450.00		(10)	1,010.00			\$ 25,440.00			
Balance account	903,019.00		(21)	1,287,519.00					102,678.30	384,500.00
Bond investments	101,902.34		(14)	2,000.00 (13)	1,224.04					
Capital stock, common		100,000.00 (11)								
Capital stock, preferred		300,000.00								300,000.00
Delivery equipment	9,250.00								9,250.00	
Delivery expenses	7,140.00						7,140.00			
Directors' fees	2,500.00						2,500.00			
Discount on sales	12,200.00						12,200.00			
Dividend, preferred stock	18,000.00								18,000.00	
Factory building	225,000.00								225,000.00	
Factory site	150,000.00								150,000.00	
Finished goods	34,320.00			(2)	50,400.00		34,320.00 \$	50,400.00		
First National Bank	161,225.00								161,225.00	
General expenses	24,770.00						24,770.00	7,294.28		
Investment income		5,500.00 (15)			916.67 (16)	458.33				
		(13)			497.38 (14)	2,750.00				
Notes receivable	35,000.00								35,000.00	
Office furniture and fixtures	1,200.00								1,200.00	
Patent rights	30,000.00								30,000.00	
Rent of warehouse	3,875.00						3,875.00			
Reserve for depreciation of buildings		20,500.00		(5)	4,500.00					25,000.00
Reserve for uncollectible accounts		8,000.00		(20)	245.25					8,245.25
Salaries, office and general	14,500.00						14,500.00			
Salaries, salesmen	34,600.00						34,600.00			
Sales		1,458,742.00			726.66 (15)	916.67				39,176.35
Surplus		38,986.34 (13)						1,458,742.00		
Traveling expenses, general	3,900.00						3,900.00			
Traveling expenses, salesmen	8,400.00						8,400.00			
Uncollectible accounts	7,850.00		(20)	245.25			8,095.25			
Factory office										
Balance account		1,287,519.00 (21)			1,287,519.00					
Freight on raw materials	14,395.00					\$ 14,395.00				
Goods in process	23,450.00			(3)	17,205.00	\$17,205.00				
Heat, light and power	22,200.00						22,200.00			
Insurance and taxes	17,400.00						17,400.00			
Labor, productive	233,846.00						233,846.00			
Forward	\$2,306,497.34	\$3,282,725.34	\$1,410,404.96	\$1,399,928.29	\$ 311,291.00	\$ 17,205.00	\$ 179,740.25	\$1,516,436.28	\$ 897,258.30	\$ 820,399.60

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THE WRIGHT COMPANY, WORKING TRIAL BALANCE										
November 30, 1929 (Continued)										
	Trial balance		Adjustments		Cost of goods manufactured		Profit and loss		Balance-sheet	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Brought forward.....	\$2,308,497.34	\$3,282,725.34			\$1,410,404.96	\$1,399,928.29	\$311,291.00	\$17,205.00	\$179,740.25	\$1,516,436.28
Labor non-productive.....	99,444.00						99,444.00			
Loose tools.....	6,270.00						2,965.00			
Machinery and equipment.....	165,000.00									
Purchases, raw material.....	682,650.00						682,650.00			
Repairs.....	14,650.00						14,050.00			
Reserve for depreciation of machinery.....		16,836.00								
Store supplies and expenses.....	25,560.00									
Raw material inventory.....			(1)			25,560.00				25,090.50
Finished goods inventory.....			(2)							46,500.00
Goods in process inventory.....			(3)							50,400.00
Loose-tool inventory.....			(4)							17,205.00
Depreciation, factory building.....			(5)			4,500.00				3,305.00
Depreciation, machinery and equipment.....			(6)			8,254.50				
Depreciation, delivery equipment.....			(7)					925.00		925.00
Reserve for depreciation of delivery equipment.....					(7)	925.00				
Depreciation of furniture and fixtures.....			(8)					200.00		200.00
Reserve for depreciation of furniture and fixtures.....					(8)	200.00		4,337.35		
Amortization of patent rights.....			(9)							
Reserve for amortization of patent rights.....					(9)	4,337.35				4,337.35
Deferred advertising.....			(10)						1,010.00	
Capital stock, common, unissued.....			(11)			150,000.00			150,000.00	
Capital stock, common, authorized.....					(11)	250,000.00				250,000.00
Taxes.....			(12)			1,500.00				1,500.00
Accrued taxes.....					(12)	1,500.00				
Loss on sale of bonds.....			(14)			750.00			750.00	
Accrued interest receivable.....			(16)			458.33			458.33	
Inventory on consignment.....			(17)			29,130.00			29,130.00	
Adjustment of consignment accounts.....					(17)	7,150.00				7,150.00
Advances to consignees.....			(18)			4,680.00			4,680.00	
Advances from consignees.....					(19)	11,460.00		1,090,846.85		11,460.00
Cost of goods manufactured.....										244,724.18
Profit and loss.....										
Total.....	\$3,299,561.34	\$3,299,561.34			\$1,733,560.14	\$1,733,560.14	\$1,154,551.85	\$1,154,551.85	\$1,516,436.28	\$1,365,786.63